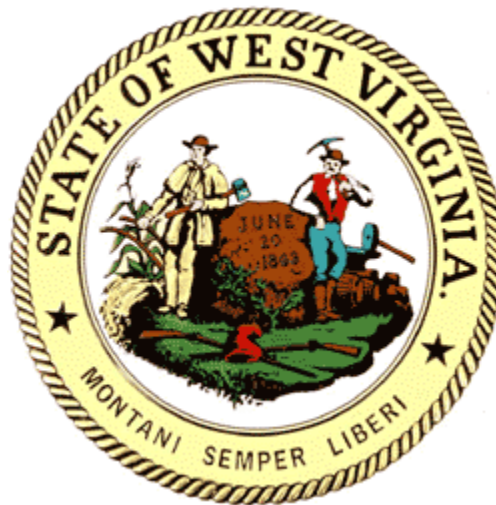




CCRC
Actuaries, LLC

STATE OF WEST VIRGINIA



PUBLIC EMPLOYEES INSURANCE AGENCY

Financial Plan

Fiscal Years 2007-2011

December 2006



415 Main Street
Reisterstown, MD 21136

Email: info@ccrcactuaries.com

Phone: 410-833-4220
Fax: 410-833-4229

Finance Board
West Virginia Public Employees Insurance Agency
Capitol Complex
Building 5, Tenth Floor
Charleston, WV 25305

Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the Managing Partner in the firm of CCRC Actuaries, LLC (“CCRC Actuaries”).

CCRC Actuaries has been retained by the Finance Board (“Board”) of the West Virginia Public Employees Insurance Agency (“Agency”) to assist it as provided under the West Virginia Public Employees Insurance Act (“Act”) as amended by Senate Bill 702 in 1998 and by House Bill 4654 (“HB 4654”) in 2006. As provided under the Act, the Board has retained CCRC Actuaries to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2007 (“FY 2007”) and to provide quarterly financial reports. In addition, the analysis is to be on an accrued and incurred reporting basis for a projection period of five years.

Accordingly, CCRC Actuaries has additionally provided preliminary forecasts for the fiscal years ending June 30, 2008 (“FY 2008”), June 30, 2009 (“FY 2009”), June 30, 2010 (“FY 2010”), and June 30, 2011 (“FY 2011”). This opinion of plan adequacy is based on the projections through FY 2011, using updated future revenue and plan modifications provided by the Finance Board in the plan adopted in December 2006.

Under the Act, it is the Board’s responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency. Under the amended Act, the Board must provide a financing plan in which the State Fund revenue costs are financed 81% by State employers and 19% by State employees in FY 2007, and 80% by State employers and 20% by State employees in FY 2008 through FY 2011. This calculation is mandated by the PEIA enabling legislation to include all premium revenue contributed by State employers and State employees. It should be noted that the forecasts are on a combined basis for the Public Employee Insurance Agency and the West Virginia Retiree Health Benefit Trust Fund. The West Virginia Retiree Health Benefit Trust Fund will assume the financial liabilities of retiree programs currently under PEIA effective July 1, 2007.

In FY 2007, PEIA will receive a Direct Transfer of \$6.7 million to offset the loss of employee premiums. It is also the Board's responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of the Agency for the fiscal year are met. We have been requested to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of the Agency through FY 2011.

It should be noted that the projections in this report continue to include substantial anticipated savings from the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Part D"). Under Medicare Part D, PEIA has elected the Retiree Drug Subsidy ("RDS") option and initially received 28% of Medicare drug expenditures between \$250 and \$5,000 for individual in 2006. PEIA received \$8,090,995 as a RDS participant from CMS in Fiscal Year 2006. In future years, we have assumed that Medicare Part D revenue to be approximately \$20,000,000 in Fiscal Year 2007 and \$23,000,000 in Fiscal Year 2008 and increasing thereafter based on increasing Medicare enrollment and prescription drugs inflation trends.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated to continue to provide PEIA with hospital savings. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in FY 2009 and later years.

In preparing the plan, CCRC Actuaries utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by the Agency, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not perform any due diligence on the information.

It should be noted that since the adoption of the financial plan in December 2005, PEIA has experienced favorable claim expense. In the circumstances, and subject to the conditions described herein, based on our review, we believe the Financial Plan approved by the Board for FY 2006 through FY 2011 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of the Agency. In addition, we are forecasting that PEIA will meet the 80%/20% cost share requirement for State revenue in FY 2008 based on the scheduled revenue increases of the financial plan approved and amended by the Finance Board in December 2006.

This conclusion is based on significant revenue increases in employer and employee premiums in later fiscal years of the Plan through FY 2011 as approved by the Board in December 2006. It should be again noted that this report has not been adjusted for the partitioning of transactions included herein that may take place as a result of the creation of the West Virginia Retiree Health Benefit Trust Fund.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. This report contemplates significant financial savings impact resulting from the implementation of Medicare Part D. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, and the continuing evolution of the framework of the managed care options, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.



Dave Bond, F.S.A., M.A.A.A.
Managing Partner



Bradley Paulis
Reviewing Partner

West Virginia Public Employees Insurance Agency

Report of Independent Actuary

Financial Plan for FY 2007 – FY 2011

OVERVIEW

This report analyzes revenues and expenses related to funding the life and health insurance benefits of active and retired employees of the State and various related agencies, together with their dependents. This report is intended for the sole use of the Finance Board, and any other use requires written approval by CCRC Actuaries.

This report was compiled, based upon claims data collected by PEIA's third party administrators through October 2006 for prescription drugs and medical claims. Enrollment data was provided at special request from PEIA as was information on administrative expenses, managed care capitations, and plan revenues. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the legislature. In addition, some information became available through presentations made at the Finance Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA as the incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue. In addition, the Act was amended in Senate Bill 702 in 1998 to include reporting on a projection period of not to exceed five years and to include an accrual and incurred basis for revenues and expenses. At the request of the Finance Board, the reporting basis is based upon the division of employees and retirees into three funds: Active Local Employee Fund, Retired Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The Retiree Fund represents all state and local agency retirees and their survivors. The State Fund represents active state employees, colleges and university employees and county boards of education employees. The Active Local Fund, Retirees Fund, and the State Fund are allocated administrative costs and retiree subsidy costs based on each fund's proportionate total revenue levels.

KEY ASSUMPTIONS

A. Enrollment Changes

These projections include the assumption that Preferred Provider Benefit and managed care enrollment will not change from November 2006 enrollment levels for the duration of these forecasts for active employees. However, the PEIA Finance Board has requested for the projection to assume retiree enrollment growth consistent with the experience of the plan. These projections assume that the Retiree Fund will annually have 1,000 additional retirees. While we have recently observed a net increase of 810 retirees from June 2006 to November 2006, we note that from June 2004 through June 2006, the average annual increase in retirees was 1,032, approximating our current assumption.

In aggregate, November 2006 enrollment has increased by 802 coverages since the end of FY 2006. Aggregate Preferred Provider Benefit enrollment has increased by 929 in total over the same period, while managed care enrollment continues to cover fewer participants, with 127 fewer coverages. The most significant enrollment changes in FY 2007 include the previously mentioned increase of 810 total retiree coverages. In the State Fund, there continues to be a transfer of coverage from managed care to Preferred Provider Benefit coverage with overall active State enrollment declining by 5 coverages from the end of FY 2006 to November 2006. The following chart summarizes the current enrollment as of the selected monthly billing dates of June 2005, June 2006 and November 2006 for purposes of comparison:

PEIA Fund	Coverage	Preferred Provider Benefit			Managed Care		
		Jun-05	Jun-06	Nov-06	Jun-05	Jun-06	Nov-06
State Active	Single	18,783	18,838	19,199	3,476	3,388	3,417
	Children	4,948	4,933	4,944	708	673	643
	<u>Family</u>	<u>30,993</u>	<u>30,737</u>	<u>30,457</u>	<u>4,382</u>	<u>4,105</u>	<u>4,009</u>
	Total	54,724	54,508	54,600	8,566	8,166	8,069
Local Active	Single	3,549	3,767	3,755	383	376	365
	Children	592	594	574	155	157	151
	<u>Family</u>	<u>4,397</u>	<u>4,503</u>	<u>4,559</u>	<u>103</u>	<u>119</u>	<u>109</u>
	Total	8,538	8,864	8,888	641	652	625
Retirees	Medicare Single	15,714	16,007	16,121	-	-	-
	<u>Medicare Family</u>	<u>9,153</u>	<u>9,385</u>	<u>9,555</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Medicare Total	24,867	25,392	25,676	-	-	-
	Non Medicare Single	2,696	2,914	3,133	183	191	188
	<u>Non Medicare Family</u>	<u>3,997</u>	<u>4,234</u>	<u>4,544</u>	<u>175</u>	<u>181</u>	<u>181</u>
	Non Medicare Total	6,693	7,148	7,677	358	372	369
	Retiree Total	31,560	32,540	33,353	358	372	369
Plan Total		94,822	95,912	96,841	9,565	9,190	9,063

B. Changes in Claim Backlog

The medical claim backlog has been relatively stable throughout Fiscal Year 2006 and Fiscal Year 2007.

Month	Average Backlog
July 2001	68,000
August 2001	72,000
September 2001	81,000
October 2001	74,000
November 2001	97,000
December 2001	113,000
January 2002	80,000
February 2002	70,000
March 2002	72,000
April 2002	63,000
May 2002	71,000
June 2002	73,000
July 2002	93,000
August 2002	95,000
September 2002	85,000
October 2002	74,000
November 2002	68,000
December 2002	79,000
January 2003	88,000
February 2003	84,000
March 2003	86,000
April 2003	78,000
May 2003	72,000
June 2003	65,000
July 2003	68,000
August 2003	69,000
September 2003	70,000
October 2003	79,000
November 2003	75,000
December 2003	83,000
January 2004	86,000
February 2004	82,000
March 2004	81,000
April 2004	82,000
May 2004	78,000
June 2004	73,000

Month	Average Backlog
July 2004	81,000
August 2004	77,000
September 2004	76,000
October 2004	75,000
November 2004	71,000
December 2004	80,000
January 2005	73,000
February 2005	83,000
March 2005	84,000
April 2005	84,000
May 2005	78,000
June 2005	83,000
July 2005	89,000
August 2005	92,000
September 2005	82,000
October 2005	77,000
November 2005	71,000
December 2005	85,000
January 2006	81,000
February 2006	85,000
March 2006	86,000
April 2006	79,000
May 2006	84,000
June 2006	81,000
July 2006	67,000
August 2006	80,000
September 2006	80,000
October 2006	69,000
November 2006	54,000

C. Trend Analysis

CCRC Actuaries performed the detailed medical and prescription drugs trend analysis in the report titled, “Medical & Prescription Drugs Claims Trend Report - September, 2006”. This report includes the detailed trend analysis of PEIA experience by medical and prescription drugs category and whether PEIA or Medicare was primary. Based on the analysis, we have reduced the FY 2007 Non-Medicare medical claim trend to 6.5% and the FY 2007 Medicare medical claim trend to 6.0%. Based on PEIA’s favorable prescription drug experience, we have reduced our trend assumption for all prescription drugs coverage to 12.0% in FY 2007.

The current projection assumes the trends on the following table:

Claim Type	Previous Assumption FY 2007 Trend	Updated Assumption FY 2007 Trend
Non-Medicare – Medical	8.5%	6.5%
Non-Medicare – Drugs	17.0%	12.0%
Medicare – Medical	9.0%	6.0%
Medicare – Drugs	17.0%	12.0%

In addition, we have assumed that trends will remain the same for FY 2008 and then increase by 0.5% in each successive Fiscal Year beginning in FY 2009. At the Finance Board’s request the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2.0% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2.0% above the Baseline Scenario.

The following chart summarizes the trend results observed for the plan using data through October 2006. It is important to note that these trends ***have not*** been adjusted to reflect savings as a result of the expansion of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies nor changes in the benefit structure. In developing the claim cost projection, we have reflected for benefit and reimbursement changes as an adjustment to the gross trend assumption.

PEIA Historical Trends

<u>Fiscal Year</u>	<u>Medical Medicare</u>	<u>Medical Non-Medicare</u>	<u>Drugs Medicare</u>	<u>Drugs Non-Medicare</u>	<u>Total</u>
1994	5%	3%	15%	20%	6%
1995	5%	9%	12%	18%	7%
1996	12%	12%	15%	31%	15%
1997	3%	10%	7%	19%	10%
1998	4%	-3%	8%	4%	0%
1999	4%	3%	15%	22%	8%
2000	9%	-6%	-10%	-15%	-6%
2001	6%	17%	30%	35%	20%
2002	3%	5%	19%	17%	8%
2003	3%	1%	13%	15%	6%
2004	12%	10%	13%	10%	10%
2005	6%	6%	13%	12%	8%
2006	6%	2%	8%	9%	5%

D. Enrollment, Claim, Expense and Revenue Assumptions

Using PEIA paid claim data through October 2006 for medical claims and for prescription drugs claims, average annualized incurred unit claim costs were developed for the State Fund, the Local Fund and the Retiree Fund for both self-funded and managed care coverages. CCRC Actuaries has developed the claim cost on an adjusted exposure basis using the respective expected claim cost for each coverage type. The adjusted exposure methodology weights the expected claim cost under each coverage type for single, member and children, and family coverages based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. The methodology results in different weighting for coverages whether PEIA is primary or secondary payor to Medicare. Based on this methodology, the result of FY 2006 and the projection of FY 2007 claims and expenses are summarized in the following charts. It should be noted that all of these numbers are on a per policy basis.

Fiscal Year 2006 Result			Revenue		Expenses		
Fund	Program	Policies	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drugs Costs	Monthly Capitation Costs
State	PPB	54,496	\$ 556	\$ 108	\$ 352	\$ 121	
	<u>Managed Care</u>	8,219	\$ 534	\$ 128			\$ 493
	Total	62,715					
Local	PPB	8,724	\$ 621	\$ -	\$ 327	\$ 105	
	<u>Managed Care</u>	641	\$ 562	\$ -			\$ 425
	Total	9,365					
Retiree	PPB - Medicare	25,252			\$ 161	224	
	PPB – Non-Medicare	7,162			\$ 371	190	
	PPB - Total	32,414	\$ -	\$ 147	\$ 207	216	
	<u>Managed Care</u>	362	\$ -	\$ 454			\$ 958
	Total	32,776					

Fiscal Year 2007 Projection			Revenue		Expenses		
Fund	Program	Policies	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drugs Costs	Monthly Capitation Costs
State	PPB	54,426	\$ 560	\$ 127	\$ 362	\$ 131	
	<u>Managed Care</u>	8,018	\$ 553	\$ 132			\$ 555
	Total	62,444					
Local	PPB	8,860	\$ 639	\$ -	\$ 350	\$ 117	
	<u>Managed Care</u>	627	\$ 611	\$ -			\$ 478
	Total	9,487					
Retiree	PPB - Medicare	25,744			\$ 164	246	
	PPB – Non-Medicare	7,736			\$ 462	228	
	PPB - Total	33,480	\$ -	\$ 161	\$ 233	242	
	<u>Managed Care</u>	369	\$ -	\$ 433			\$ 1,034
	Total	33,849					

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on average reserve levels for each fund. The following charts summarize the additional revenues from employers, employees, retirees, Medicare Part D reimbursements and direct transfers assumed in the report.

Board Decisions – December 2006

Source	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Additional State Employer Revenue	\$5,000,000	\$0	\$30,000,000	\$40,000,000	\$55,000,000
Additional Local Agency Revenue	\$2,000,000	\$0	\$2,000,000	\$11,000,000	\$11,000,000
Additional Employee Premiums	\$11,700,000	\$0	\$7,500,000	\$10,000,000	\$13,800,000
Additional Retiree Premiums	\$4,100,000	(\$9,200,000)	\$4,700,000	\$6,600,000	\$9,600,000
Medicare Part D Revenue	\$20,000,000	\$23,000,000	\$27,000,000	\$32,000,000	\$38,000,000
Direct Transfer	\$6,700,000	\$0	\$6,000,000	\$6,000,000	\$6,000,000

Under H. B. 4654, Public Employees Insurance Agency Finance Board is allowed to delay the eighty-twenty split between employer and employee due to a partial offset by a legislative appropriation. As a result, the scheduled employee premium increase of \$18,400,000 has been reduced by \$6,700,000 to \$11,700,000 in Fiscal Year 2007. Based on Finance Board input, this projection assumes that retiree premium percentage increases in the future will be identical to active employee premium percentage increases for Fiscal Year 2008 and later years. Medicare retiree premiums have been reduced to offset benefit design changes in the program in Fiscal Year 2008.

Future fiscal year state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee premiums represent employee premiums paid by active employees participating in the State Fund. Additional retiree premiums represent premiums paid by retirees either directly or through Sick and Annual Leave credits.

In addition, PEIA management has assumed that the Retiree Premium Assistance Program will grow as a direct result from the required retiree premium increases in the Financial Plan. The program's cost is currently projected to grow from approximately \$3.5 million in FY 2007 to approximately \$5.3 million in FY 2011, based on the Finance Board's direction and projected retiree enrollment growth in the financial plan.

E. Provider Reimbursement Changes

The projections assume significant revenue from Medicare Part D and the Medicaid/PEIA Hospital Bill. We have assumed that PEIA's continual participation in the Retiree Drug Subsidy program under Medicare Part D will result in revenue of approximately \$20,000,000 in Fiscal Year 2007 and \$23,000,000 in Fiscal Year 2008 and increasing thereafter based on increasing Medicare enrollment and prescription drugs inflation trends.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated to continue to provide PEIA with hospital savings. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, and will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in Fiscal Year 2009.

FISCAL YEAR 2007 FORECAST

The financial forecast for FY 2007 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2007, projects accrued revenue of \$702,505,955 and incurred plan expenses of \$662,058,692 to produce a fiscal year surplus of \$40,447,263. It was last projected to be a surplus of \$33,694,069 in the Fiscal Year 2006 Financial Report dated September 2006.

Under the Baseline Scenario, FY 2007 is projected to end with a reserve of \$258,994,605, which represents 37% of projected expenditures in FY 2008. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$264,719,236 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$253,301,620.

FISCAL YEAR 2008 FORECAST

The financial forecast for FY 2008 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2008, projects accrued revenue of \$695,046,681 and incurred plan expenses of \$704,095,245 to produce a fiscal year deficit of (\$9,048,564). It was last projected to be a deficit of (\$11,485,294) in the Fiscal Year 2006 Financial Report dated September 2006. In FY 2008, Medicare premiums will reduce by approximately \$22 per month per retiree to offset adapted benefit design changes for Medicare retirees.

Under the Baseline Scenario, FY 2008 is projected to end with a reserve of \$249,946,041, which represents 32% of projected expenditures in FY 2009. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$272,911,481 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$226,822,879.

FISCAL YEAR 2009 FORECAST

The financial forecast for FY 2009 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2009, projects accrued revenue of \$753,325,431 and incurred plan expenses of \$793,431,765 to produce a fiscal year deficit of (\$40,106,334). It was last projected to be a deficit of (\$56,457,393) in the Fiscal Year 2006 Financial Report dated September 2006.

Under the Baseline Scenario, FY 2009 is projected to end with a reserve of \$209,839,707, which represents 24% of projected expenditures in FY 2010. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$265,142,089 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$153,441,363.

FISCAL YEAR 2010 FORECAST

The financial forecast for FY 2010 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2010, projects accrued revenue of \$829,658,704 and incurred plan expenses of \$872,358,747 to produce a fiscal year deficit of (\$42,700,043). It was last projected to be a deficit of (\$49,273,151) in the Fiscal Year 2006 Financial Report dated September 2006.

Under the Baseline Scenario, FY 2010 is projected to end with a reserve of \$167,139,664, which represents 17% of projected expenditures in FY 2011. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$272,270,207 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$58,555,235.

FISCAL YEAR 2011 FORECAST

The financial forecast for FY 2011 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2011, projects accrued revenue of \$929,854,775 and incurred plan expenses of \$963,572,039 to produce a fiscal year deficit of (\$33,717,264). It was last projected to be a deficit of (\$3,294,618) in the Fiscal Year 2006 Financial Report dated September 2006.

Under the Baseline Scenario, FY 2011 is projected to end with a reserve of \$133,422,401, which represents 13% of projected expenditures in FY 2012. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$309,527,681 and under the Pessimistic Scenario, the ending reserve is expected to decrease to (\$50,806,381).

LITIGATION

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

SUMMARY

With projected changes to the Plan as adopted in the Financial Plan by the PEIA Finance Board, we are forecasting that the Plan will meet the 10% reserve target through the projection period ending with the Fiscal Year 2011 using the Baseline assumptions. These projections are based on significant Medicare Part D subsidies and significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement; possible changes in methodology of managed care premium calculation; and changes in the prescription drugs program, can be expected to further exacerbate the difficulty of projecting future medical and drugs claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as Medicare and Medicaid reform. On the national level, it would not be surprising to see significant changes in the Medicare Part D program, which will impact PEIA financial projections. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the legislatively mandated requirement of a five-year projection, it should be assumed that constant modifications would be required.

**APPENDIX - BASELINE SCENARIO
AGGREGATED PEIA & RETIREE TRUST**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2007**

PERIOD 7/1/2006 - 6/30/2007

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	\$ 67,886,700	\$ -	\$ 365,428,162	\$ 433,314,862
Employer Premiums - MCO	4,600,641	-	53,191,662	57,792,303
Employee Premiums - PPB	-	64,664,407	83,237,542	147,901,949
Employee Premiums - MCO	-	1,917,311	12,714,442	14,631,753
Direct Transfers	-	-	6,700,000	6,700,000
Investment Income	1,152,958	-	9,265,246	10,418,204
Retiree Subsidy Revenue	-	4,097,755	-	4,097,755
COBRA Premiums	318,036	-	1,272,144	1,590,180
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	20,000,000	-	20,000,000
Total Revenue	\$ 74,403,353	\$ 90,679,473	\$ 537,423,129	\$ 702,505,955
Program Expenses				
Medical Claims	\$ 37,243,671	\$ 93,432,008	\$ 236,134,372	\$ 366,810,051
Prescription Drug Claims	12,427,591	97,281,004	85,808,267	195,516,862
Managed Care Capitations	3,598,722	4,577,952	53,444,175	61,620,849
Administration	2,427,663	4,236,035	17,542,213	24,205,911
Life Insurance	792,022	674,975	5,303,246	6,770,243
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	3,497,200	-	3,497,200
Director's Discretionary Fund	176,663	678,300	1,145,037	2,000,000
Total Expenses	\$ 56,865,406	\$ 204,377,474	\$ 400,815,812	\$ 662,058,692
Retiree Subsidy Allocations	\$ 13,826,653	\$ (113,698,001)	\$ 99,871,348	\$ -
Fiscal Year Results	\$ 3,711,294	\$ -	\$ 36,735,969	\$ 40,447,263
Beginning Plan Reserve	22,506,324	-	196,041,018	218,547,342
Ending Plan Reserve	\$ 26,217,618	\$ -	\$ 232,776,987	\$ 258,994,605

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 5,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 2,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 11,700,000	Non-Medicare	6.5%	12.0%
Additional Retiree Premiums	\$ 4,100,000	Medicare	6.0%	12.0%
Direct Transfers	\$ 6,700,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
AGGREGATED PEIA & RETIREE TRUST**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2008**

PERIOD 7/1/2007 - 6/30/2008

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 67,886,700	\$ -	\$ 365,428,162	\$ 433,314,862
Employer Premiums - MCO	4,600,641	-	53,191,662	57,792,303
Employee Premiums - PPB	-	58,596,434	83,237,542	141,833,976
Employee Premiums - MCO	-	1,742,414	12,714,442	14,456,856
Direct Transfers	-	-	-	-
Investment Income	1,325,268	-	10,840,287	12,165,555
Retiree Subsidy Revenue	-	4,786,997	-	4,786,997
COBRA Premiums	327,437	-	1,309,746	1,637,183
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	23,000,000	-	23,000,000
Total Revenue	\$ 74,585,064	\$ 88,125,845	\$ 532,335,772	\$ 695,046,681
<u>Program Expenses</u>				
Medical Claims	\$ 39,589,778	\$ 94,135,849	\$ 250,852,227	\$ 384,577,854
Prescription Drug Claims	13,277,567	109,557,835	91,620,918	214,456,320
Managed Care Capitations	3,778,658	4,806,850	56,116,384	64,701,892
Administration	2,549,047	4,447,836	18,419,324	25,416,207
Life Insurance	831,623	708,724	5,568,409	7,108,756
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	4,196,640	-	4,196,640
Director's Discretionary Fund	176,509	680,074	1,143,417	2,000,000
Total Expenses	\$ 60,402,256	\$ 218,533,808	\$ 425,159,181	\$ 704,095,245
Retiree Subsidy Allocations	\$ 16,025,955	\$ (130,407,963)	\$ 114,382,008	\$ -
Fiscal Year Results	\$ (1,843,147)	\$ -	\$ (7,205,417)	\$ (9,048,564)
Beginning Plan Reserve	26,217,618	-	232,776,987	258,994,605
Ending Plan Reserve	\$ 24,374,471	\$ -	\$ 225,571,570	\$ 249,946,041

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ -	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ -	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ -	Non-Medicare	6.5%	12.0%
Additional Retiree Premiums	\$ (9,200,000)	Medicare	6.0%	12.0%
Direct Transfers	\$ -	Capitations		5.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
AGGREGATED PEIA & RETIREE TRUST**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2009**

PERIOD 7/1/2008 - 6/30/2009

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 69,759,764	\$ -	\$ 391,616,231	\$ 461,375,995
Employer Premiums - MCO	4,727,578	-	57,003,593	61,731,171
Employee Premiums - PPB	-	66,330,333	89,743,729	156,074,062
Employee Premiums - MCO	-	1,971,322	13,708,255	15,679,577
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,274,734	-	10,853,198	12,127,932
Retiree Subsidy Revenue	-	5,592,170	-	5,592,170
COBRA Premiums	337,115	-	1,348,460	1,685,575
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	27,000,000	-	27,000,000
Total Revenue	\$ 76,544,209	\$ 100,893,825	\$ 575,887,397	\$ 753,325,431
<u>Program Expenses</u>				
Medical Claims	\$ 42,271,291	\$ 107,078,773	\$ 286,592,079	\$ 435,942,143
Prescription Drug Claims	14,907,434	126,221,254	102,867,696	243,996,384
Managed Care Capitations	4,156,524	5,287,535	61,728,022	71,172,081
Administration	2,676,499	4,670,228	19,340,290	26,687,017
Life Insurance	873,204	744,160	5,846,829	7,464,193
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	4,532,371	-	4,532,371
Director's Discretionary Fund	168,188	686,238	1,145,574	2,000,000
Total Expenses	\$ 65,252,214	\$ 249,220,559	\$ 478,958,992	\$ 793,431,765
Retiree Subsidy Allocations	\$ 17,401,905	\$ (148,326,734)	\$ 130,924,829	\$ -
Fiscal Year Results	\$ (6,109,910)	\$ -	\$ (33,996,424)	\$ (40,106,334)
Beginning Plan Reserve	24,374,471	-	225,571,570	249,946,041
Ending Plan Reserve	\$ 18,264,561	\$ -	\$ 191,575,146	\$ 209,839,707

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 30,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 2,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 7,500,000	Non-Medicare	7.0%	12.5%
Additional Retiree Premiums	\$ 4,700,000	Medicare	6.5%	12.5%
Direct Transfers	\$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
AGGREGATED PEIA & RETIREE TRUST**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2010**

PERIOD 7/1/2009 - 6/30/2010

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 80,061,614	\$ -	\$ 426,533,657	\$ 506,595,271
Employer Premiums - MCO	5,425,728	-	62,086,168	67,511,896
Employee Premiums - PPB	-	76,515,704	98,418,645	174,934,349
Employee Premiums - MCO	-	2,272,401	15,033,338	17,305,739
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,092,745	-	9,891,584	10,984,329
Retiree Subsidy Revenue	-	6,532,773	-	6,532,773
COBRA Premiums	347,080	-	1,388,319	1,735,398
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	32,000,000	-	32,000,000
Total Revenue	\$ 87,372,185	\$ 117,320,878	\$ 624,965,642	\$ 829,658,704
<u>Program Expenses</u>				
Medical Claims	\$ 45,345,868	\$ 118,101,373	\$ 307,437,183	\$ 470,884,424
Prescription Drug Claims	16,811,936	145,972,208	116,009,582	278,793,726
Managed Care Capitations	4,572,176	5,816,288	67,900,824	78,289,288
Administration	2,810,324	4,903,739	20,307,305	28,021,368
Life Insurance	916,865	781,368	6,139,171	7,837,404
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	4,894,961	-	4,894,961
Director's Discretionary Fund	165,825	704,499	1,129,676	2,000,000
Total Expenses	\$ 70,822,068	\$ 281,174,436	\$ 520,362,243	\$ 872,358,747
Retiree Subsidy Allocations	\$ 20,097,548	\$ (163,853,558)	\$ 143,756,010	\$ -
Fiscal Year Results	\$ (3,547,431)	\$ -	\$ (39,152,611)	\$ (42,700,043)
Beginning Plan Reserve	18,264,561	-	191,575,146	209,839,707
Ending Plan Reserve	\$ 14,717,130	\$ -	\$ 152,422,535	\$ 167,139,664

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 40,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 11,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 10,000,000	Non-Medicare	7.5%	13.0%
Additional Retiree Premiums	\$ 6,600,000	Medicare	7.0%	13.0%
Direct Transfers	\$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
AGGREGATED PEIA & RETIREE TRUST**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2011**

PERIOD 7/1/2010 - 6/30/2011

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 90,363,463	\$ -	\$ 474,545,116	\$ 564,908,579
Employer Premiums - MCO	6,123,878	-	69,074,708	75,198,586
Employee Premiums - PPB	-	90,550,106	110,390,030	200,940,136
Employee Premiums - MCO	-	2,686,729	16,861,954	19,548,683
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,009,290	-	8,772,273	9,781,563
Retiree Subsidy Revenue	-	7,631,585	-	7,631,585
COBRA Premiums	357,339	-	1,429,355	1,786,694
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	38,000,000	-	38,000,000
Total Revenue	\$ 98,298,988	\$ 138,868,420	\$ 692,687,367	\$ 929,854,775
<u>Program Expenses</u>				
Medical Claims	\$ 48,870,890	\$ 130,758,462	\$ 331,336,224	\$ 510,965,576
Prescription Drug Claims	19,043,840	169,457,887	131,410,675	319,912,402
Managed Care Capitations	5,029,394	6,397,917	74,690,907	86,118,218
Administration	2,950,840	5,148,926	21,322,670	29,422,436
Life Insurance	962,708	820,436	6,446,129	8,229,273
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	5,286,558	-	5,286,558
Director's Discretionary Fund	163,477	722,648	1,113,875	2,000,000
Total Expenses	\$ 77,220,223	\$ 318,592,834	\$ 567,758,982	\$ 963,572,039
Retiree Subsidy Allocations	\$ 22,335,060	\$ (179,724,414)	\$ 157,389,354	\$ -
Fiscal Year Results	\$ (1,256,295)	\$ -	\$ (32,460,969)	\$ (33,717,264)
Beginning Plan Reserve	14,717,130	-	152,422,535	167,139,665
Ending Plan Reserve	\$ 13,460,835	\$ -	\$ 119,961,566	\$ 133,422,401

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 55,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 11,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 9,600,000	Non-Medicare	8.0%	13.5%
Additional Retiree Premiums	\$ 13,800,000	Medicare	7.5%	13.5%
Direct Transfers	\$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%